

RECENTLY PROPOSED/LEGALISED TAX REFORMS & PRACTICAL APPLICATION - 2022/23 Onwards

- **Value Added Tax (Tax Rate, Tax Exemptions & Registration Threshold)**
- **Social Security Contribution Levy (Tax Rate, Registration Threshold)**



Tax Knowledge Sharing Session

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RECENT VAT REFORMS & PRACTICAL APPLICATION

3. VALUE ADDED TAX ACT NO. 14 OF 2002 & SUBSEQUENT AMENDMENTS

VAT



RECENT VAT REFORMS & PRACTICAL APPLICATION

3. VALUE ADDED TAX ACT NO. 14 OF 2002 & SUBSEQUENT AMENDMENTS

- Value Added Tax is imposed w.e.f 1st August 2002 as a replacement of GST.
- Value Added Tax Act No. 14 of 2002

Value Added Tax (Amendment) Act No. 07 of 2003

Value Added Tax (Amendment) Act No. 13 of 2004

Value Added Tax (Amendment) Act No. 06 of 2005

Value Added Tax (Amendment) Act No. 08 of 2006

Value Added Tax (Amendment) Act No. 14 of 2007

Value Added Tax (Amendment) Act No. 15 of 2008

Value Added Tax (Amendment) Act No. 15 of 2009

Value Added Tax (Amendment) Act No. 09 of 2011

Value Added Tax (Amendment) Act No. 07 of 2012

Value Added Tax (Amendment) Act No. 17 of 2013

Value Added Tax (Amendment) Act No. 07 of 2014

Value Added Tax (Amendment) Act No. 11 of 2015

Value Added Tax (Amendment) Act No. 20 of 2016

Value Added Tax (Amendment) Act No. 25 of 2018

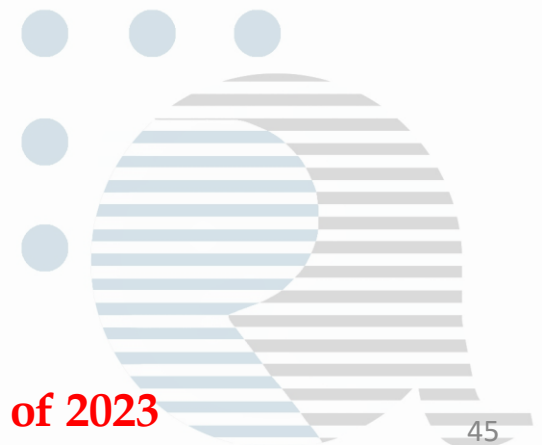
Value Added Tax (Amendment) Act No. 19 of 2019

Value Added Tax (Amendment) Act No. 09 of 2021

Value Added Tax (Amendment) Act No. 13 of 2022

Value Added Tax (Amendment) Act No. 44 of 2022 and **(Amendment) Act No. 32 of 2023**

- Relevant Gazette Notices issued under the Value Added Tax Act.



RECENT VAT REFORMS & PRACTICAL APPLICATION

3.1 VALUE ADDED TAX ACT NO. 14 OF 2002 & SUBSEQUENT AMENDMENTS

CHARGING OF VAT (IMPOSITION)

The Value Added Tax shall be **charged**, (Sec. 02)

(a) • At the **time of supply**.

- On every **taxable supply** of goods or services, made in a taxable period,
- By a **registered person**,
- In the course of carrying on or carrying out a **taxable activity** in Sri Lanka.

(b) On the **importation of goods** into Sri Lanka, by any person
and on the Value of such goods or services **supplied¹** or the goods **imported²**.

- Time of Supply? - Sec. 4 (Four Conditions each on supply of Goods and Services)
- Taxable Supply? - Sec. 83 (In SL¹, Chargeable with Tax², including 0%³ supply & excluding exempted⁴ ones)
- Supply of Goods? - Sec. 83 (Passing of exclusive ownership)
- Supply of Services? - Sec. 83 (Any supply excluding supply of goods)
- Taxable Period? - (i) One Month [0%¹, Sec. 22(7)² & Indirect Exports³ (TQB & EDB Regd.)] or
(ii) Three Months
- Taxable Activity? - Sec. 83 [Any activity carried out **as a business**,]
- Registered Person? - Sec. 14 (2)



RECENT VAT REFORMS & PRACTICAL APPLICATION

3.1 VALUE ADDED TAX ACT NO. 14 OF 2002 & SUBSIQUENT AMENDMENTS

Time of Supply (Sec. 4)

(i) **Supply of goods** (Sec 4 (1)) - Earliest occurrence of any one of the following;

- The invoice is issued,*
- The payment including any advance is **received**,
- The payment is due to the supplier, or
- The delivery of goods.



(ii) **Supply of Services** (Sec 4 (3)) - Earliest occurrence of any one of the following;

- The payment is received,
- The payment is due for the services rendered or for future services,
- The invoice is issued*
- The service was performed.

* If the **invoice is issued within 10 days** of delivery/performance, the time of supply will be the invoice date.

* If registered under **Cash Basis** (Sec. 23) - the time of supply shall be the time at the payment received.

* Supply under **Hire Purchase** – the time of supply shall be at the time the agreement entered into.

3.1 VALUE ADDED TAX ACT NO. 14 OF 2002 & SUBSEQUENT AMENDMENTS

- **Goods** means all kinds of **movable or immovable property**, but does not include,
 - (a) ¹Money;
 - (b) ²Computer software made to customers special requirements either as unique programme or adaptation for standard programme, intercompany information data and accounts, enhancement and update of existing specific programmes, enhancement and update of existing normalized programmes supplied under contractual obligation to customers who have bought the original programme or where the value of contents separately identifiable in a software such value of contents;
- **Value of Supply (Sec. 5):-**
 - ¹Excluding VAT and it ²should not be less than open market value,
- **Registration Thresholds:-**
 - (i) **Both Traders & Non-Traders -**

From 01.01. 2020 to 13.12.2022	- Rs. 75mn per quarter or Rs. 300mn p.a.
From 14.12. 2022	- Rs. 20mn per quarter or Rs. 80mn p.a.
From 01.01.2024 - Proposed to reduce up to Rs. 15mn per quarter or Rs. 60mn p.a., <u>but not legalized yet.</u>	
 - (ii) **Long Term Projects** - Registration during the project implementation period could be considered under section 22(7) to claim input VAT during project implementation period.

3.1 VALUE ADDED TAX ACT NO. 14 OF 2002 & SUBSEQUENT AMENDMENTS

Exempted Supply & Importation (Sec. 8)

No tax shall be charged on the supply and the importation of the items specified in the Part II of the First Schedule to the Act as such supplies and imports are not taxable unless zero rated under Sec. 7.

In computing the above threshold, followings should be excluded, (Sec. 10)

- (i) Any exempted supply.
- (ii) Any excluded supply of buying and selling activity, where the value does not exceed above thresholds.
- (iii) Single Isolated Transaction.

* Any person who exceeds/likely to exceeds above limits must notify the CG within 15 days.

VAT Registration

Certificate of Registration (Sec. 15) -

The Commissioner-General shall, issue;

- (i) A tax registration number (TIN) and
- (ii) A Certificate of Registration (VAT).



RECENT VAT REFORMS & PRACTICAL APPLICATION

3.1 VAT (AMENDMENT) ACT NO. 44 OF 2022 & 32 of 2023 Highlights

- **Increase of VAT rate:-**

w.e.f. 01 st June 2022	-	8% to 12% <i>(Gazetted)</i>
w.e.f. 01 st September 2022	-	12% to 15% <i>(Gazetted)</i>
w.e.f. 01 st January 2024	-	15% to 18% <i>(Gazetted)</i>
- **Removal of VAT exemptions** - w.e.f. 1st January 2023 a few exemptions are removed.
 - w.e.f. 1st January 2024 lot of exemptions are removed.
- **Leisure Sector** - The 0% VAT rate changed to 12% on 01.06.2022 and again increased to 15% on 01.09.2022 on the supply of services by a (TDA registered) hotel, guest house, restaurant or other similar businesses providing similar services. [Earlier this 0% VAT was available only if 60% of the total value of the inputs were sourced locally]. *(Changes are Gazetted)*

3.2 VAT (AMENDMENT) ACT No. 32 OF 2023 & VAT (AMENDMENT) Bill OF 14.12.2023 - Proposals

INTRODUCTION TO RECENT VAT REVISIONS

- Removal of majority of the existing VAT exemptions w.e.f. 01st January 2024.
- Increase in VAT Rate from 15% to 18% w.e.f. 01st January 2024. *(Gazetted)*
- Continuation of SVAT Scheme. *(Bill of 31.08.2023 proposed to abolished, but not legalized)*
- Reduction of the registration threshold from Rs. 80mn. per annum to Rs. 60mn. *(Proposed by the new Bill)*
- Importing any article subject to the Special Commodity Levy is granted exemption from all import point taxes, including VAT, in accordance with the Special Commodity Levy Act.

Suggestions of the VAT BILL of 31 st Aug 2023	Legalization - Amendment Act No. 32 of 2023, w.e.f. 01.01.2024
1. To remove of lot of VAT Exemptions.	Legislated to remove lot of exemptions.
2. To increase the VAT Rate from 15% to 18%	Legalized by way of Gazetting.
3. To abolish the S VAT System	Proposed S VAT Cancellation not legalized.
4. To abolish VAT deferment on all Imports for re-exports, other than of Fabric & Accessories for Garments Export Manufacturing.	Not abolished as the S VAT is not abolished.

3.2 VAT (AMENDMENT) ACT No. 32 OF 2023 & VAT (AMENDMENT) Bill OF 14.12.2023

RECENT CHANGES TO VAT EXEMPT LIST *(Red colour items shows the changes from the Bill)*

Continuation of the Remaining Exemptions	
Import or Supply of;	Industry/Sector
• wheat, wheat flour	Food/Agriculture
• infant milk power	Dairy/Agriculture
• artificial limb, crutches, wheel chairs, hearing aids, accessories for such aids or appliances which are worn or carried or implanted in the human body to compensate for a defect or disability, white canes for the blind, braille typewriters and parts, braille writing papers, braille writing boards and any other articles which are used by disabled persons which are approved by the Minister taking into consideration the degree of relief requested by such persons, on an application made for that purposes;	Healthcare
• agricultural machinery, mammoties, forks, Bio fertilizer (effective from 01.07.2004), artemia eggs and peat moss classified under the Harmonized Commodity Description and Coding System Numbers for Custom proposes;	Agriculture
• agricultural seeds, agricultural plants, shrimp feed inclusive of prawn feed and animal feed but excluding poultry feed;	Agriculture
• Solar panel modules, accessories or solar home system for the generation of solar power energy identified under the specified Harmonized Commodity Description Nos. For customs purposes; (effective from 1/1/2009)	
• the import and supply of goods at duty free shops for payment in foreign currency	Trading/Other

3.2 VAT (AMENDMENT) ACT No. 32 OF 2023 & VAT (AMENDMENT) Bill OF 14.12.2023

RECENT CHANGES TO VAT EXEMPT LIST

Continuation of the Remaining Exemptions (Contd.)

Supply of	Industry/Sector
• public passengers transport services (other than air transport, water transport or transport of tourists, excursion tours and taxi services)	Transportation
• electricity including distribution	Power/Other
• services in relation to burials and cremations by any institution or person;	Other
• services by a person in Sri Lanka to another person outside Sri Lanka to be consumed or utilised by such other person outside Sri Lanka for which the <u>payment is made in Sri Lanka rupees</u> ;	Exports/Other
• services at a restaurant situated beyond the immigration counter at the Bandaranaike International Air Port;	Exports/Other
• Goods and services to the mission of any state or any organization to which the provisions of the Diplomatic Privileges Act No 9 of 1996 applies or to any diplomatic personnel of such mission or organization who is entitled to such benefits, provided that reciprocal benefits are available to their counter parts from Sri Lanka and identified as such by the Commissioner General;	Other
• the supply of locally manufactured goods to duty free shops for payment in foreign currency.	Exports/Other

3.2 VAT (AMENDMENT) ACT No. 32 OF 2023 & VAT (AMENDMENT) Bill OF 14.12.2023

Continuation of the Remaining Exemptions (Contd.)

Supply of	Industry/Sector
<ul style="list-style-type: none"> goods or services funded directly by foreign organisations for the relief of sudden distress caused by natural or human disasters or to any activity having regard to the interest of the national economy, as approved by the Minister; 	Other
<ul style="list-style-type: none"> the following financial services <ul style="list-style-type: none"> a) the operation of any current, deposit or savings account; b) the exchange of currency c) the issue, payment, collection or transfer of ownership of any note, order for payment, cheque or letter of credit d) the issue, allotment, transfer of ownership, drawing, acceptance or endorsement of any debt security, being any interest in or right to be paid money owing by any person e) the issue, allotment or transfer of ownership of any equity security, debt security or participatory security f) the underwriting or sub-underwriting the issue of any equity security, debt security or participatory security; g) the provision of any loan, advance or credit; h) the provision <ul style="list-style-type: none"> a. of the facility of instalment credit finance in a hire purchase conditional sale or credit sale agreement for which facility a separate charge is made and disclosed to the person to whom the supply is made; b. of goods under any hire purchase agreement or conditional sale agreement, which have been used in Sri Lanka for a period not less than twelve months as at the date of such agreement; or c. of leasing facilities under any <ul style="list-style-type: none"> - finance lease agreement 	Financial

3.2 VAT (AMENDMENT) ACT No. 32 OF 2023 & VAT (AMENDMENT) Bill OF 14.12.2023

Continuation of the Remaining Exemptions (Contd.)

Supply of	Industry/Sector
• the life insurance , “Agrahara” insurance and crop and livestock insurance;	Other
• the transfer of non-performing loans of a licensed commercial bank by way of transfer of such loans to any other person in terms of a re-structuring scheme or other scheme of such bank as approved by the Central Bank of Sri Lanka with the concurrence of the Minister.	Financial
• all healthcare services provided by medical institutions or professionally qualified persons providing such care other than hospital room charges	Healthcare
• Any article imported subject to the Special Commodity Levy under the Special Commodity Levy Act, No. 48 of 2007 subject to the condition that such articles are sold without any processing except adaption for sale;	Trading
• services by Tower Hall Theatre Foundation established by the Tower Hall Theatre Foundation Act No.1 of 1978 or Central Cultural Fund established under Central Cultural Fund Act, No.57 of 1980;	
• sea sand;	
• locally manufactured handloom textiles ;	Apparel
• unprocessed agricultural , horticultural or fishing products produced in Sri Lanka	Agriculture

3.2 VAT (AMENDMENT) ACT No. 32 OF 2023 & VAT (AMENDMENT) Bill OF 14.12.2023

CHANGES TO VAT EXEMPT LIST

Continuation of the Remaining Exemptions (Contd.)

Supply of	Industry/Sector
• locally manufactured machinery used for tea industry and identified by Sri Lanka Tea Board established by the Sri Lanka Tea Board Law No 14 of 1975 as a tea machinery	
• locally manufactured surgical gauze used for surgery;	Healthcare
• fabric which are subject to a cess at a specific rate classified under the Harmonized Commodity Description and Coding System Numbers for Custom proposes, in lieu of chargeability of any other tax on importation at the point of entry into the country, by the Director- General of Customs as specified in a Gazette Notification issued under the Sri Lanka Export Development Act, No. 40 of 1979;	Apparel
• being any sum paid out of the Export Development Fund as export development	
• services, which result in the improvement of quality, character or value of any yarn, fabric or garment so far as such services are provided to persons other than exporters of such products;	Apparel
• Geriatric services or child care services	Other
• International telecommunication services provided by “External Gateway Operators” to local telecommunication operators	

3.2 VAT (AMENDMENT) ACT No. 32 OF 2023 & VAT (AMENDMENT) Bill OF 14.12.2023

Continuation of the Remaining Exemptions (Contd.)

Supply of	Industry/Sector
<ul style="list-style-type: none"> • goods or services to any project identified as a Strategic Development Project in terms of section 3(4) of the Strategic Development Project Act No 14 of 2008 (effective from 1/1/2008); or 	Other
<ul style="list-style-type: none"> • (a) goods or services to any specified project identified by the Minister in charge of the subject of Finance, taking into consideration the economic benefit to the country, on which the tax is borne by the Government • (b) Goods or services to any infrastructure development project funded through foreign loans or donations directly to the Government Ministries approved by the Minister on the recommendation of secretary of the respective Government Ministry; 	Other
<ul style="list-style-type: none"> • goods or services by the Central Bank of Sri Lanka established by the Monetary Law Act (Chapter 422) Central Bank of Sri Lanka Act, No. 16 of 2023; 	Financial
<ul style="list-style-type: none"> • any services by any public corporation to the extent of provision of such services on behalf of the Government of Sri Lanka, free of charge out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government. 	Financial

3.2 VAT (AMENDMENT) ACT No. 32 OF 2023 & VAT (AMENDMENT) Bill OF 14.12.2023

CHANGES TO VAT EXEMPT LIST

Continuation of the Remaining Exemptions (Contd.)

Import of	Industry/Sector
<ul style="list-style-type: none"> any article entitled to duty free clearance under the Passenger's Baggage (Exemptions) Regulations made under section 107 of the Customs Ordinance, or any article cleared duty free on a re-importation certificate as provided for in Schedule A of the Customs Ordinance, or any article cleared ex-bond for use as ship stores; 	Other
<ul style="list-style-type: none"> (A) goods to be used as exhibition material or as material in any technical demonstration and which are re-exported after the completion of such project, exhibition or demonstration , as the case may be or (B) plant, machinery or equipment of high value to be used for any project which are imported to be used in projects; and in respect of which tax is differed in terms of paragraph (b) of the second proviso to subsection (3) of section 2 (effective from 17/7/2007); 	Other
<ul style="list-style-type: none"> aircraft engines or aircraft spare parts identified under specified Harmonized Commodity Description and Coding System Numbers for Custom purposes 	Other
<ul style="list-style-type: none"> Chemical naptha by the Ceylon Petroleum Corporation to be supplied to Ceylon Electricity Board for the generation of electricity 	Other

3.2 VAT (AMENDMENT) ACT No. 32 OF 2023 & VAT (AMENDMENT) Bill OF 14.12.2023

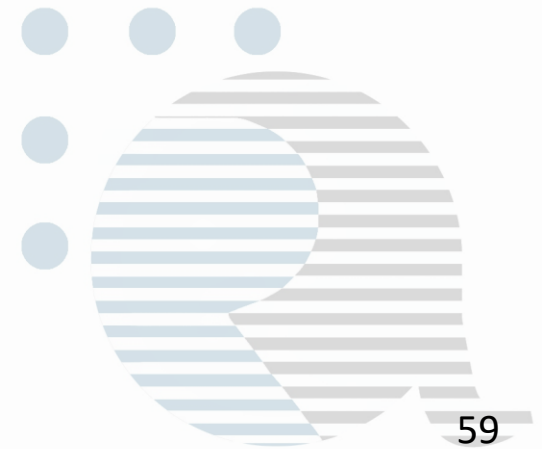
CHANGES TO VAT EXEMPT LIST

Continuation of the Remaining Exemptions (Contd.)

- ~~the import or supply of any motor vehicle identified under the Harmonized Commodity Description and Coding Numbers for custom purposes and liable to the Excise (Special Provisions) Duty under the Excise (Special Provisions) Act, No. 13 of 1989 on the importation of such vehicle or any motor vehicle liable to the same duty on the manufacture of any such vehicle~~

Updated Exemptions

- ~~(locally supplied) any goods which would have been exempted on importation, if imported.~~



3.2 VAT (AMENDMENT) ACT No. 32 OF 2023 & VAT (AMENDMENT) Bill OF 14.12.2023

CHANGES TO VAT EXEMPT LIST

Updated Exemptions (Contd.)

Import or Supply of	Industry/Sector
<ul style="list-style-type: none">pharmaceutical products, drugs (other than cosmetics), the end use of which are confined to therapeutic or prophylactic effect and purchased on a prescription of a physician and raw materials for the production or manufacture of such products or drugs;	Healthcare
<ul style="list-style-type: none">ayurvedic preparations belonging to the Ayurveda pharmacopoeia or ayurvedic preparations (other than cosmetic preparations) or unani, siddha or homeopathic preparations (other than cosmetic preparations) identified under the Harmonized Commodity Description and Coding System Numbers for Custom purposes and raw materials for such preparations, with the recommendation of the Commissioner for Ayurveda appointed under section 3 of the Ayurveda Act, No. 31 of 1961;	Healthcare
<ul style="list-style-type: none">crude petroleum oil, kerosene, liquid petroleum gas, aviation fuel, petrol, diesel, oil for ships or Fuel oil specified under the Harmonized Commodity Description Number 2710.19.60 for Custom purposes;	Petroleum
<ul style="list-style-type: none">agricultural tractors and road tractors for semi-trailers classified under the Harmonized Commodity Description and Coding System Numbers for Custom purposes;	

3.2 VAT (AMENDMENT) ACT No. 32 OF 2023 & VAT (AMENDMENT) Bill OF 14.12.2023

CHANGES TO VAT EXEMPT LIST

Updated Exemptions (Contd.)

Import or Supply of	Industry/Sector
• yarn used for textile industry as identified under the Harmonized Commodity Description and Coding System Numbers for Custom purposes;	Apparel
• dyes used for the handloom industry as identified under the Harmonized Commodity Description and coding System Numbers for Custom purposes;	Apparel

Updated Exemptions (Contd.)

Supply of	Industry/Sector
• educational services provided by any person or partnership;	Education
• services by the Department of Commerce, the Board of Investment of Sri Lanka or the Sri Lanka Ports Authority, in so far as such services are provided to any exporter or to provider of services which are zero rated services, for the purpose of tax under this Act;	Other
• rice, rice flour and bread so far as such products are manufactured locally ;	Agriculture

3.2 VAT (AMENDMENT) ACT No. 32 OF 2023 & VAT (AMENDMENT) Bill OF 14.12.2023

CHANGES TO VAT EXEMPT LIST

Updated Exemptions (Contd.)

Import of	Industry/Sector
<ul style="list-style-type: none">goods to a mission of any state or any organization to which the provisions of the Diplomatic Privileges Act, No. 9 of 1996 applies or to any diplomatic personnel of such mission or organization who is entitled to such benefits, provided that, reciprocal benefits are available to the counter parts from Sri Lanka and identified as such by the Commissioner- General;	Other
<ul style="list-style-type: none">goods from any foreign organization or out of the funds from such organization for the relief of sudden distress caused by natural or human disasters or to any activity having regard to the interest of the national economy, as approved by the Minister;	Other



3.2 VAT (AMENDMENT) ACT No. 32 OF 2023 & VAT (AMENDMENT) Bill OF 14.12.2023

Updated Exemptions (Contd.)

- **Import of;**

(A) goods **for any specified project** identified by the Minister, taking into consideration the economic benefit to the country, on which the tax is borne by the Government; or

(B) goods, **for a project identified as a strategic development project** under the provisions of the Strategic Development Project Act, No.14 of 2008, during the project implementation period, subject to the conditions specified therein; or

(C) goods **for any infrastructure development project** funded through foreign loans or donations directly to any Ministry of the Government of Sri Lanka, as approved by the Minister on the recommendation of secretary of the respective Government Ministry;

Industry/Sector

Other

3.2 VAT (AMENDMENT) ACT No. 32 OF 2023 & VAT (AMENDMENT) Bill OF 14.12.2023

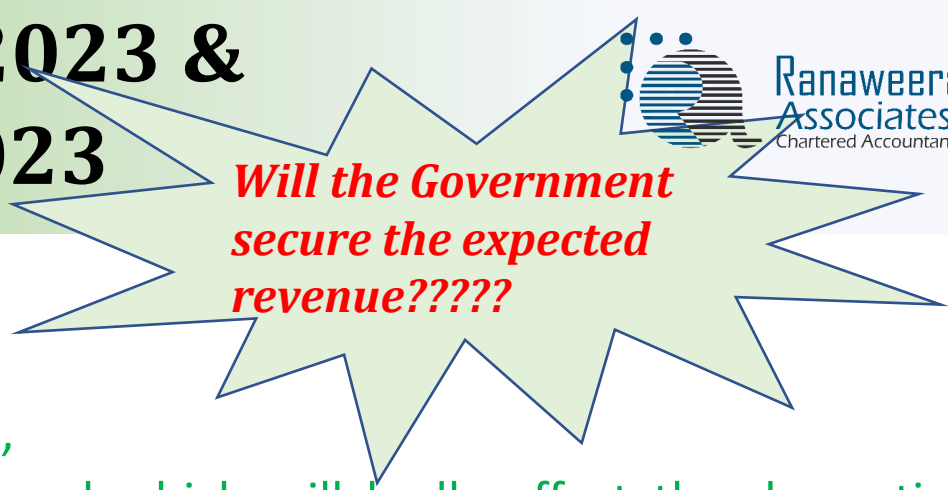
RECENT AMENDMENT PROPOSALS & OUTCOME

- The VAT **rate increase from 15% to 18%** w.e.f. 01.01.2024 is legalized by Gazetting. However, pending incorporation into the Act via Amendment Bill released on 14.12.2023.
- The Cabinet's decision, made on 11th December 2023, to decrease the annual VAT liable **threshold from Rs. 80 million to Rs. 60 million** pending incorporation into the Act via Amendment Bill released on 14.12.2023.
- While there was an initial suggestion to abolish the **SVAT Scheme**, the Amending Act does not incorporate any provisions for such elimination. **Therefore, the SVAT Scheme is continuing.**

3.2 VAT (AMENDMENT) ACT No. 32 OF 2023 & VAT (AMENDMENT) Bill OF 14.12.2023

Major Impacts of VAT Revisions could be summarized as follows;

- The increase in cost of living by about 3% to 5%,
- Curtailment of capital investments due to increase in capital costs,
- Reduction of the domestic buying power resulting in low demand which will badly affect the domestic production volumes.
- Making the renewable energy producing equipment liable to VAT will result in curtailing the investments in the power generation sector and ultimately the country may have to depend more and more on imported petroleum products.
- Because of making employee meals and transport liable to VAT it will badly affect to the continuity of employee's welfare & health supports. *(Here the employer should consider the fair market value of such welfare supports as taxable supplies & pay VAT @ 18% thereon)*
- Practical application issues might arise due to non-interpreting of some important words in the Act *(Eg: In the case of agricultural sector, what is the yardstick of deciding unprocessed produces).*
- There is a big cost impact on the inventories brought forward as at 01.01.2024. (Specially in the case of goods formally exempted from VAT & MRP marked items. - E.g. Fuel stations, supermarkets etc.)



*Will the Government
secure the expected
revenue?????*

4. SOCIAL SECURITY CONTRIBUTION LEVY (SSCL)

SSCL



4. SOCIAL SECURITY CONTRIBUTION LEVY (SSCL)

- **Liable Person** - be charged from every **taxable person**
- **Effective Date** - for every quarter **on or after 1st October 2022**
- **On What** - in respect of the **liable turnover** (*Second Schedule to the Act*),
- **Rate of Levy** - at the rate of **2.5%**.



4.2 Exclusions from Relevant Turnover (*Sec.3*) :

- ❖ Any **bad debt** incurred (Recovery should be included)
- ❖ **VAT** paid
- ❖ Any **rebate** received under the Export Development Rebate in relation to any international event as approved by the Minister.



RECENT TAX REFORMS & PRACTICAL APPLICATION

4. SOCIAL SECURITY CONTRIBUTION LEVY (SSCL)

4.1 IMPOSITION OF SOCIAL SECURITY CONTRIBUTION LEVY (SSCL) (Sec.2)

Applicable “Taxable Person”	Turnover (Excluding exempted values)	Liable Portion (As a % of the Liable Turnover)
(a) Importing	Value of that article ascertained for the purpose of the VAT. (No minimum registration thresholds applicable)	100% of the turnover (<i>The value for duty, i.e.110%</i>)
(b) Manufacturing	Sum receivable whether received or not, in that quarter any article manufactured and sold in Sri Lanka.	85% of the turnover
(c) Providing a service of any description	Sum receivable whether received or not, - value from the supply in Sri Lanka of any financial Services, - the value of any service arising from the business of real estate and improvement (on value addition as taking for VAT), - provision of any service other than above.	100% of the Value Addition attributable to financial services / turnover (land & improvements and services)
(d) Wholesale or retail sale of any article including importation and sale	Sum receivable, whether received or not, from the wholesale or retail sale.	Distributor of <u>Locally manufactured goods</u> - 25% of the turnover Wholesale/Retail Trading (Imported /Local) - 50% of the turnover

RECENT TAX REFORMS & PRACTICAL APPLICATION

3. SOCIAL SECURITY CONTRIBUTION LEVY (SSCL)

4.3 Computation - Liable Share of the Turnover/Value (*Second Schedule*)

Pricing with SSCL

W.e.f. 01st October 2022, the prices of product/service may be determined as follows;

Liable Turnover (say)	100.00
SSCL $[(TO / 97.5) * 2.5\%]$	2.564
Total Price (VAT Base)	102.564
VAT (@ 15%)	15.385
Grand Total	<u>117.949</u>



The above working is applicable only if the 100% of the T/O is liable to SSCL, and hence, if the liable T/O is lesser than 100% need to get adjusted the formular.

A few exemptions are given in the First Schedule to the Act.

Specially; : Exports,

: Businesses registered with TDA where payment received in foreign currency &

: Special Commodity Levy (SCL) liable amounts.

4. SOCIAL SECURITY CONTRIBUTION LEVY (SSCL)

4.4 REGISTRATION (Sec. 4)

Every **taxable person**, other than importers, who, carries on or carries out any **taxable activity** referred to in Section 2 shall be required to be registered under this Act by making an application to the CGIR in the specified form-

❖ **Registration Date** – On or before 15th October 2022

❖ **Thresholds** on taxable person;

aggregate of the turnover \geq Rs. 120 Mn (for the year 01.10.2021 – 30.09.2022)

aggregate of the turnover \geq Rs. 30 Mn (for a quarter commence on or after 01.10.2022, if exceeds or is likely to exceed)

❖ If a person meets the threshold over a single isolated transaction and if the CGIR satisfies, such transaction may be **excluded** in calculating the turnover for registration purpose.

❖ If CGIR recognized with the nature of activities, a person is required to get the registration, needs to register that person.

3. SOCIAL SECURITY CONTRIBUTION LEVY (SSCL)

4.5 Cancellation of the Registration (*Sec. 5*)

- ❖ Upon following reasons, can apply for a cancellation of a registration only after completion of 12 months of registration;
 - (i) **Cessation** of the taxable activity
 - (ii) **Aggregate Turnover** of the immediately preceding four quarters of the relevant quarter **does not exceed Rs. 120 Mn.**
- ❖ Regarding the cancellation, CGIR shall inform such person of the date of cancellation of the registration (by registered post or by electronically).

4. SOCIAL SECURITY CONTRIBUTION LEVY (SSCL)

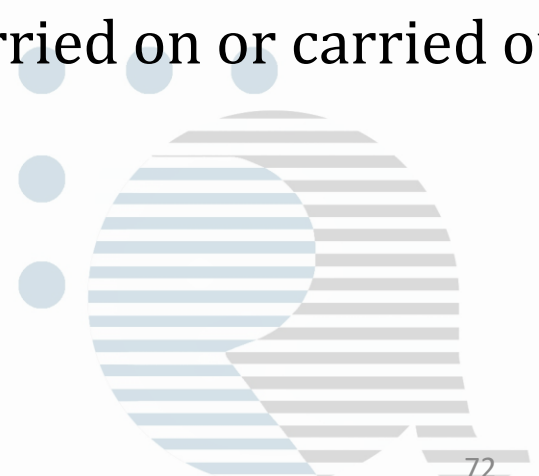
4.6 Continuation of Liability upon cancellation of registration; (Sec. 6)

Notwithstanding the cancellation of registration under section 5, a taxable person's liability for any act done or omitted during the registered time period continues.

4.7 Registered taxable person's Duty to notify Changes; (Sec. 7)

Following changes be informed (in writing or by electronic means) not later than **14 days** of the change.

- (a) The name, address & place at which any taxable activity is carried on or carried out
- (b) The nature of the taxable activity carried on or carried out
- (c) The person authorized to sign returns and other documents
- (d) Ownership of the taxable activity carried on or carried out,



4. SOCIAL SECURITY CONTRIBUTION LEVY (SSCL)

4.8 PAYMENT AND COLLECTION OF THE LEVY:

- ❖ **Accounting basis (Sec. 16):** an accrual basis.
- ❖ **Payment of levy (Sec. 17) :** on or before the 20th day of the immediately succeeding month of the relevant month.
- ❖ **Default Penalty (Sec. 18) :** Until end of 1st month 10% of the default + 2% p.m. or part there of, for each further delayed period

4.8.1 Collection of the Levy by the Director General of Customs (Sec. 19)

- ❖ The Director General of Customs (DGC) shall collect from every taxable person, in respect of **every article imported** by such person, at the time such article is imported,
- ❖ The DGC shall make an endorsement on the import invoice specifying the amount so collected.

4. SOCIAL SECURITY CONTRIBUTION LEVY (SSCL)

4.9 RETURNS & INFORMATION (Sec. 8)

4.9.1 Tax Returns;

- ❖ Every registered person shall furnish **Quarterly Returns** (either in writing or by electronic means) for every quarter on or before the 20th day of the month after the end of each relevant quarter.
- ❖ The Assistant Commissioner (AC) shall **issue a notice** to a person who failed to submit the return to furnish within 14 days of receipt of such notice.
- ❖ The AC shall **acknowledge** receipt of the return only if he receives a **proper return.**
- ❖ For the purposes of **obtaining full information** in respect of the turnover of any registered person, the AC may give notice in writing or by electronic means.
- ❖ Failure to comply with the provision may be subjected to **penalties.**

4. SOCIAL SECURITY CONTRIBUTION LEVY (SSCL)

4.10 EXEMPTED ARTICLES & SERVICES:

- Any article **exported by the** manufacturer;
- Any article **not being** a plant, machinery or fixture imported by any person **exclusively for the use** in, or for, the manufacture of any article for export;
- Any article **sold by a** taxable person to any exporter (Indirect Exports),
- Any article which is imported,
 - for the display at an exhibition;
 - for the temporary use in SL in any project approved by the Minister;
 - for the purposes of repairs to that article to be carried out in Sri Lanka
- **Other articles** listed in the Part IA & Part IB of the First Schedule to the Act.
- **The services** listed in the Part II of the First Schedule to the Act. (Direct & indirect services exports are also covered)

RECENTLY PROPOSED/IMPLEMENTED TAX REFORMS & PRACTICAL APPLICATION - SPECIALLY 2022/23 *FOR FURTHER CLARIFICATIONS PLEASE COMMUNICATE WITH US*

*Thank
you*



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